

Maintaining Affordability & Sustainability

By Sharon Villines, Takoma Village Cohousing

One of the best ways to maintain the affordability and long-term sustainability of your community is to save for future expenses. Many of us understand saving for emergencies, but communities also need to save for repairs and replacements of commonly owned property. Savings preserve affordability because they protect members from unexpected cash requirements. Savings contribute to sustainability because they build a more certain future. To be affordable, many intentional communities neglect long-term savings, but short-term affordability may not mean long-term affordability, or even be creating sustainability.

When we moved into Takoma Village Cohousing, we knew almost nothing about the management of our buildings. It was our community, our home, our dream come true, but it was also a \$7.5 million real estate development with a complex infrastructure that included storm sewers, an elevator, thousands of square feet of siding and roofs and basements, and a sprinkler and fire alarm system that encompassed 43 units plus a 4,000 SF common house.

As a self-managed community, we needed a crash course in advanced building maintenance and repair, but we didn't know enough to know even that. For several years we lurched from crisis to crisis, learning about the storm sewer inspection the day the city showed up with a bill for \$10,000 and the elevator inspection the day they showed up to shut it down. With community members who were completely dependent on elevator access, this was a crisis. Fortunately, one of the first things we had done was have a "reserve study" done and set up "reserves."

"Reserves"

Few of us really understood at that time what a reserve study was or why we were setting aside so much money every month. The reserve study had determined how much we needed to save to repair and replace all our commonly owned facilities. It has provided us with the funds to weather many storms—literally. A few years ago lightning struck the building and fried everything electrical. Since almost everything these days is electrical, it was expensive.

Some households could have absorbed an unexpected expense of \$3,000, but others were living from paycheck to paycheck with no flexibility. A few had a child entering college, were unemployed, or had a serious illness. If we as a community had not had savings, the extra expense could have made the community unaffordable for some and put others seriously in debt.

"Reserves" are savings designated for a specific purpose. In this case, the repair and replacement of our major building parts like intercom systems, electrical wiring, heating systems, appliances, etc., damaged when lightning struck. We had been saving for predictable expenses like normal deterioration. This meant we had partial savings for the planned replacement of many of the parts damaged by lightning and could

borrow from our reserves for other items. Having those funds available also meant we did not have to defer other repairs that were already planned.

Deferred repairs can become costly. By not replacing deteriorated or damaged roofing shingles, for example, we would risk damage to parts of the roof structure, which will cost much more to repair.

Reserve Studies

To determine how much we needed to save, we hired a reserve study specialist to study the property and calculate how much it will need to save annually to maintain it. The specialists reviewed the condition of each of the elements and estimated its useful life. Predictions are never perfect, but their useful life estimates were based on data collected on the actual experiences of others for use by the construction and housing industry.

We follow the norm of having reserve studies repeated every 3–5 years. A new study reviews the condition of each element and any changes since the last study, and updates the financial calculations. Financial calculations are based on interest earned, inflation rates, and changes in construction and new technology costs. Variations can be significant, up as well as down.

The calculations take into consideration short-term expenses for replacements that occur repeatedly every 5–10 years, for example, and for long-term expenses that may occur every 30–50 years.

Reserve specialists have varying backgrounds and levels of ability. Our best studies were done by an architect and a construction engineer, both of whom loved their work. They cared about energy efficiency and well-maintained buildings. We have paid from \$3,000 to \$5,000 depending on whether they were building on old studies or redoing the components list. It is important to consider the level of expertise that is going into your study. (See “Resources” at the end of this article.)

Using the Reserve Study to Maintain Property

A few years after we moved in, I joined the facilities team and began managing the action items list and the budget. The building was beginning to need repairs and heavier maintenance. This is when I really began to understand how much a good reserve study could help maintain affordability and sustainability.

In a building our size, just the listing of all the commonly owned construction and building elements is a seven-page spreadsheet. Because we had a very good company doing our study, it taught us about all the parts of the building, how much each would cost to replace, and when that replacement might be necessary. Very few of us have an understanding of how our buildings work sufficient to self-manage our buildings. Very few communities are large enough to hire professional managers.

I’ve been through four studies now, not all worth the effort. The best studies were done by an architect and a construction engineer who walked the property with us and explained what they are examining and what they saw. They gave us tips on maintenance and materials, on new technologies, and often on local providers. People who enjoy their work like to talk about it, but not all this information will be included

in the written report. It is more complex to write than to say. We got this information because we were present during the walk-through. In the less helpful studies, the specialist just took pictures and said almost nothing. We went home.

The knowledge and skill of reserve study specialists in evaluating the condition of your property, their care in doing a complete analysis, and the quality of their financial projections will determine how well your study prepares you for the future. The better prepared you are financially, the more affordable and sustainable your community will be. You will be able to complete major repairs and replacements when needed without causing financial distress or embarrassment to individual households.

Resources

There is much more information I could share about reserve studies. The focus of this article is to raise awareness of how important savings are to maintaining affordability and sustainability. The following resources will provide more information about the studies themselves.

State of California Dept of Real Estate Reserve Study Guidelines for Homeowner Association Budgets

The California Reserve Study Guidelines are the most complete information available. Extremely detailed and thorough. Each state has different laws but following the best practices can only benefit your community. Just because you don't have to do it, doesn't mean you shouldn't.

http://www.dre.ca.gov/pdf_docs/re25.pdf

Association Reserves, Inc.

A large reserve study firm serving California and many other states. An excellent Website. Includes a Q&A that covers many topic, most responses are from lawyers. They also offer do-it-yourself packets and inexpensive financial updates.

<http://www.reservestudy.com/>

Reserve Study Advisors.

Another commercial site with good Q & A pages.

<http://www.reserveadvisors.com>

Community Associations Institute.

An association of and for HOAs. Members of local chapters can be very helpful in recommending a local reserve study specialist and sharing other information.

<http://www.caionline.org/>

ReserveStudies@yahoogroups.com

An email discussion group for intentional communities to discuss reserve study issues. The files section also includes sample reserve studies and other resource materials. Members share experiences and their own practices. To subscribe, send a blank message to:

reservestudies-subscribe@yahoogroups.com